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August 1, 2017

VIA ELECTRONIC FILING

The Honorable Jocelyn Boyd
Chief Clerk/Administrator
Public Service Commission of South Carolina
101 Executive Center Drive
Columbia, South Carolina 29211

RE: Petition of South Carolina Electric & Gas Company for Prudency Determination Regarding Abandonment, Amendments to the Construction Schedule, Capital Cost Schedule and Other Terms of the BLRA Orders for the V.C. Summer Units 2 & 3 and Related Matters
Docket No. 2017-____-E

Dear Ms. Boyd:

Enclosed for filing, on behalf of South Carolina Electric & Gas Company ("SCE&G"), is a Petition for Prudency Determination Regarding Abandonment, Amendments to the Construction Schedule, Capital Cost Schedule and Other Terms of the BLRA Orders for V.C. Summer Units 2 & 3 and Related Matters. Additionally, enclosed for filing is a Motion to Expedite Hearing as well as a Proposed Notice of Filing and Hearing and Prefile Testimony Deadlines for consideration by the Public Service Commission of South Carolina.

By copy of this letter, we are serving the South Carolina Office of Regulatory Staff with a copy of the enclosed documents and attach a certificate of service to that effect.

If you have any questions or need additional information, please do not hesitate to contact us.

Very truly yours,

K. Chad Burgess

KCB/kms
Enclosures

Jocelyn G. Boyd, Esquire

August 1, 2017

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cc: Shannon Bowyer Hudson, Esquire

Jeffrey M. Nelson, Esquire

(both via electronic mail and U.S. First Class Mail)

BEFORE

THE PUBLIC SERVICE COMMISSION

OF

SOUTH CAROLINA

DOCKET NO. 2017-__-E

In Re: Petition of South Carolina Electric)
 & Gas Company for Prudency)
 Determination Regarding Abandonment,)
 Amendments to the Construction)
 Schedule, Capital Cost Schedule and)
 Other Terms of the BLRA Orders for)
 V.C. Summer Units 2 & 3 and Related)
 Matters)
 _____)

PETITION OF
SOUTH CAROLINA ELECTRIC &
GAS COMPANY

South Carolina Electric & Gas Company (“SCE&G” or the “Company”) hereby petitions the Public Service Commission of South Carolina (the “Commission”) for an order amending the capital cost schedule, construction schedule and other terms and conditions of orders concerning the construction of two 1,117 net megawatt nuclear units (the “Units”) at the V.C. Summer Nuclear Station site near Jenkinsville, South Carolina to reflect the Company’s decision, as of July 31, 2017, to abandon construction of the Units. This petition (the “Petition”) is filed pursuant to the provisions of the Base Load Review Act (“BLRA”), S.C. Code Ann. §§ 58-33-270(E) and 58-33-280(K) (2015). In accordance with the provisions of the BLRA, SCE&G would respectfully show to the Commission the following:

I. INTRODUCTION

1. SCE&G is a corporation duly organized and existing under the laws of the State of South Carolina, with its principal offices at 220 Operation Way, Cayce, South Carolina, 29033.

2. SCE&G is engaged in the business of generating, transmitting, and delivering electricity and providing electric service to the public for compensation. SCE&G owns and operates an integrated electric utility system that serves approximately 718,000 customers in 24 counties in central and southern South Carolina.

3. Corporate legal counsel for SCE&G in this proceeding are as follows:

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All correspondence and any other matters relative to this proceeding should be addressed to these representatives.

PRIOR BLRA ORDERS

4. In Order No. 2009-104(A), the Commission made prudency determinations and approved a forecasted construction milestone schedule and a forecasted capital cost schedule for the Units. The approved capital cost was \$6.3 billion in future dollars.¹

5. In four ensuing orders, the Commission approved changes to the schedules of costs or construction schedules for the Units.²

6. In the most recent order, Order No. 2016-794, the Commission approved SCE&G's request for a new construction milestone schedule tied to new substantial completion dates for the Units of August 31, 2019, and August 31, 2020, and to update the forecasted capital costs of the Units to approximately \$7.7 billion in future dollars.

¹ Unless otherwise noted, all amounts reflect SCE&G's portion of the cost of the Units in future dollars.

² Order No. 2010-12; Order No. 2011-345; Order No. 2012-844; Order No. 2015-661.

7. The schedules approved in Order No. 2016-794 were based on the October 2015 amendment to the Engineering, Procurement and Construction Agreement (“EPC Contract”) under which the Units were being constructed by Westinghouse Electric Company, LLC (“Westinghouse”). In that amendment, Westinghouse agreed to complete the principal scopes of work remaining under the EPC Contract for a fixed price of \$3.345 billion in future dollars for invoices paid after June 30, 2015, resulting in a total price under the fixed price option of approximately \$7.7 billion.

8. In the first quarter of 2017, Westinghouse informed SCE&G that the substantial completion dates for the Units would be April of 2020 and December of 2020.

II. FACTUAL BACKGROUND FOR THE REQUEST

9. On March 29, 2017, Westinghouse and certain affiliates petitioned for protection under Chapter 11 of the United States Bankruptcy Code.

10. Westinghouse’s announced goal was to isolate its businesses other than new nuclear construction from the losses attributable to the EPC Contract and the contract to construct two similar units at the Vogtle Electric Generating Plant in Waynesboro, Georgia.

11. At the time of the bankruptcy filing, Westinghouse informed SCE&G and the co-owner of the project, the South Carolina Public Service Authority (“Santee Cooper”), that it intended to use the provisions of the Bankruptcy Code to reject its obligations to complete the Units under the provisions of the EPC Contract.

12. Westinghouse's rejection of the EPC Contract would mean that SCE&G and Santee Cooper can no longer rely on Westinghouse to complete construction of the project under the fixed price guaranties contained in the EPC Contract, as amended.

13. On July 27, 2017, SCE&G and Santee Cooper entered into an agreement with Westinghouse's parent company, Toshiba Corporation ("Toshiba"), under which Toshiba will pay SCE&G approximately \$1.2 billion in satisfaction of all claims for damages associated with Westinghouse's anticipated rejection of the EPC Contract. This \$1.2 billion represents SCE&G's 55% share of the payments. Some of these funds would be used to liquidate certain contractors' liens, which would result in a remaining amount estimated at \$1.1 billion gross of tax. The amount after tax is estimated to be \$700 million. The net amount of the Toshiba guaranty settlement payments after taxes, *i.e.*, approximately \$700 million, will be applied to reduce rates to customers as set forth below.

A. The Evaluation of Cost to Complete

14. In anticipation of Westinghouse's rejection of the EPC Contract, SCE&G and Santee Cooper each undertook an evaluation of their options regarding the project.

15. The options SCE&G evaluated included completing both Units, cancelling both Units, and completing one Unit and delaying or cancelling the other.

16. To support the evaluation, SCE&G and Santee Cooper each undertook to create their own individual cost and completion schedules for the Units based on those provided by Westinghouse.

17. For this purpose, SCE&G assembled a team of construction and financial experts supported by external consulting firms with expertise in scheduling and estimating, as well as direct expert engineering support from Westinghouse and construction expertise from Fluor Corporation.

18. Through an Interim Assessment Agreement with Westinghouse, which was executed at the time of the bankruptcy filing, SCE&G obtained direct access to Westinghouse's construction scheduling and cost data, commodity quantity and installation rates, commercial information, and vendor and supplier contracts for the purpose of conducting this evaluation, much of which was previously unavailable to SCE&G.

19. After a careful review and assessment of this data by its evaluation team and senior leadership, SCE&G has determined that the reasonable, likely and prudent schedule for construction of the Units would result in substantial completion of Unit 2 by December 31, 2022 and Unit 3 by March 31, 2024.

20. After a careful review and assessment of the relevant data by its evaluation team and senior leadership, SCE&G determined that the reasonable, likely and prudent forecasted cost schedule for completion of the Units would be approximately \$8.8 billion (SCE&G's share in future dollars).

21. SCE&G also carefully reviewed and assessed the cost of completing Unit 2 and abandoning Unit 3. This assessment indicated that the reasonable, prudent and likely cost of completing Unit 2 and abandoning Unit 3 would be approximately \$7.1 billion.

22. These cost forecasts include the additional Owner's cost SCE&G would anticipate incurring by assuming a broader scope of responsibility for directing the project and as a result of the extensions in the substantial completion dates for the Units.

23. These forecasted costs of the Units at completion are net of the approximately \$1.1 billion in Toshiba guaranty settlement payments.

24. The resulting net estimated cost to complete both Units is approximately \$1.1 billion more than the comparable cost as approved in Order No. 2016-794 and approximately three times the estimate of the additional costs above the fixed price option required to complete the Units that Westinghouse provided SCE&G in the first quarter of 2017.

B. Alternatives for Completing, Modifying or Cancelling the Project

25. In evaluating the options for proceeding with the project or cancelling it, SCE&G has reviewed each option considering (a) the capital costs involved in completing or abandoning construction, (b) the construction risks involved and potential for cost increases and delay beyond those currently anticipated if the decision were made to complete one or both Units, (c) the mix of generating capacity serving its customers that would result from each potential course of action, (d) the exposure of the generation system and its customers to environmental cost risks, carbon emissions charges, fuel price volatility and other risks under each path forward, and (e) the levelized cost to customers forecasted under the multiple planning scenarios.

26. Using a system planning methodology comparable to that used in the studies presented to the Commission in prior proceedings since 2008, SCE&G has modeled the direct financial costs and benefit to customers from completing one or both Units versus cancelling one or both of them.

27. This numerical analysis considered costs to customers over a 40 year planning horizon.

28. In all cases, the analysis assumed that the deadline for Federal Nuclear Production Tax Credits (PTCs) will be extended such that both Units will qualify for credits. There are, however, substantial risks associated with the receipt of the PTCs given current construction schedules.

29. In all cases, the actual and reasonably foreseeable benefits of increased solar energy sources and of energy efficiency gains and demand reduction are included in the forecasts. SCE&G has and will continue to encourage, promote and incentivize energy efficiency measures and the addition of solar power and other alternative energy sources to its system.

30. The levelized annual cost to customers of each of the alternative plans was assessed against multiple scenarios reflecting differing assumptions related to natural gas prices and future costs for CO₂ emissions defining a broad range of possible future outcomes.

31. These analyses indicated that in a number of reasonably probable planning scenarios there could be significant levelized cost benefits to SCE&G's system and

customers over 40 years from completing one or both Units, so long as current costs forecasts and construction schedules were to prove reasonably accurate, PTC deadlines were adjusted, and natural gas prices and CO₂ costs fell within the ranges assumed.

32. Based on this evaluation, SCE&G anticipated that a prudent and economically practical path in light of capital requirements and rate impacts could be to abandon or delay Unit 3 and complete Unit 2.

33. This was based on the assumption that Santee Cooper would remain a 45% partner and with SCE&G relying on gas generation to fulfill current and future generation needs that would be unmet if one unit were cancelled.

34. Significant risks remained to be evaluated concerning the option of completing Unit 2 only.

35. Those risks included construction schedule risk, construction cost risk, risks that the PTCs would not be available and risks that the rate impact of completing Unit 2 would be unacceptable to customers and the regulatory process.

36. The evaluation of these risks was never brought to a conclusion.

37. After a protracted period of intensive discussions between the parties, Santee Cooper's board announced on July 31, 2017, that it was suspending construction of the project.

38. SCE&G's evaluation process had shown that completing Unit 2 would not be beneficial to customers and economically and financially feasible if Santee Cooper did

not participate in the project and pay its 45% share of the construction and operating costs of that Unit.

39. Therefore, as of July 31, 2017, SCE&G has determined the only reasonable and prudent course of action is to abandon construction of the Units and return the site to a stable condition.

40. On July 31, 2017, SCE&G informed Westinghouse and the Fluor Corporation of its decision and instructed them to cease all work on the project other than work necessary to safely and efficiently demobilize construction and to stabilize the site.

III. REQUEST FOR RELIEF

Prudency Determination Concerning Abandonment

41. Based on the foregoing, SCE&G seeks an order from the Commission affirming under S.C. Code Ann. § 58-33-280(K) that SCE&G's decision to abandon the project effective July 31, 2017, is reasonable and prudent.

The BLRA Cost Schedule through September 30, 2017

42. SCE&G requests the Commission to adopt the cost schedule set forth in *Exhibit 1* to this Petition as a reasonable and prudent schedule of the capital costs associated with the Units incurred as of September 30, 2017, (the "Capital Costs"). As shown on *Exhibit 1*, the Capital Costs to be incurred through September 30, 2017, are

approximately \$5.3 billion including transmission costs, which total approximately \$316 million, and approximately \$4.9 billion excluding transmission costs.

43. *Exhibit 1* includes a reasonable and prudent forecast of the costs that SCE&G expects to spend between July 31, 2017, and September 30, 2017, to demobilize the construction team and begin to restore the site to a stable condition. The Capital Costs anticipated to be incurred during this period, net of transmission costs, are approximately \$220 million.

44. SCE&G is evaluating the costs of completing the winding up of the project after September 30, 2017, and will present its forecasts and conclusions to the Commission when this evaluation is completed.

Accounting for Transmission Projects

45. Investment in certain transmission lines and other transmission assets were included in the scope of work to construct the Units as approved under Order No. 2009-104(A) and subsequent BLRA orders (the "Transmission Projects").

46. These Transmission Projects represent a necessary and valuable addition to the capacity, reliability and efficiency of the transmission system that SCE&G uses to serve its customers daily and will not be abandoned.

47. To provide for the reasonable and appropriate accounting treatment for the Transmission Projects going forward, SCE&G requests that the Commission direct SCE&G, as of the effective date of the revised rates order that SCE&G plans to request in

the fourth quarter of 2017, (the “2017, Revised Rates Order” and the “2017, Revised Rates Proceeding”):

- a. To remove from the balance of Capital Costs for BLRA purposes SCE&G’s capital costs incurred in constructing the Transmission Projects.
- b. To treat the costs associated with the Transmission Projects as costs that are no longer associated with a base load plant being constructed under the terms of the BLRA; and
- c. To defer as a regulatory asset for recovery in a future rate proceeding the operating and maintenance costs associated with the Transmission Projects after they are placed in service, including depreciation, property taxes, insurance, and other operating and maintenance costs. SCE&G also requests authorization to accrue carrying costs, at its weighted average cost of long-term debt, on the balance of the deferred costs in this regulatory asset.

Accounting for and Recovery of Capital Costs

48. To properly provide for the recovery of the Capital Costs of the Units as envisioned under S.C. Code Ann. §§ 58-33-270(E) and 58-33-280(K), SCE&G requests that the Commission authorize and direct SCE&G:

- a. To create a regulatory asset account in its retail electric utility rate base in which SCE&G will record the Capital Costs as a regulatory asset for future recovery through rates (the “Capital Costs Account”);

- b. To include in Capital Cost the amount of severance expense and other severance and employment related costs, including associated accounting adjustments;
- c. To record carrying costs at the Company's weighted average cost of long-term debt on any Capital Costs not currently reflected in revised rates from July 31, 2017, until such time as a cost of capital is reflected in rates on those costs;
- d. To include a revenue component in the adjustment to rates that will be implemented in the 2017, Revised Rates Proceeding which shall be sufficient to amortize the Capital Costs over 60 years (the "Amortization Charge");
- e. To effect the recovery of the Amortization Charge initially through revised rates under S.C. Code Ann. § 58-33-280 and subsequently as a component of retail electric base rates when new electric base rates are approved for SCE&G in future proceedings under S.C. Code Ann. §§ 58-27-810 *et seq.*;
- f. To reflect this Amortization Charge in rates until the Capital Costs Account balance has been fully amortized;
- g. To include in the adjustment to rates that will be implemented in the 2017, Revised Rates Proceeding a revenue component which shall be sufficient to recover the utility's weighted average cost of capital ("Cost of Capital"), as defined in S.C. Code Ann. § 58-33-210(22), applied to the balance in the Capital Costs Account which is not currently reflected in revised rates;

h. Thereafter, to include in revised rates or retail electric rates a component sufficient to recover the Cost of Capital applied to the balance in the Capital Costs Account until that balance has been fully amortized.

49. By making the mitigating adjustments that are requested below, the revised rates required to reflect abandonment of the Units should not result in any cost increase to customers compared to current rates for a number of years.

Rate Mitigation

50. To mitigate cost increases to customers, SCE&G requests that the Commission direct it to flow back to customers in rate mitigation an amount equivalent to the estimated value of the anticipated Toshiba guaranty settlement payments after reduction by SCE&G's statutory rate of state and federal income taxes and the payment of liens and certain pre-bankruptcy claims against the project by contractors and subcontractors. The net amount which would be reflected in rate mitigation to customers is estimated to be \$700 million and is subject to collection of the corresponding gross amount from Toshiba.

51. To mitigate the impact on retail electric customers' rates, SCE&G requests that the Commission authorize and direct it to apply up to \$700 million of the net amount of the anticipated Toshiba guaranty settlement payments as a direct reduction to retail electric rates through the BLRA Decrement Rider. The annual amount of the net anticipated Toshiba guaranty settlement payments to be used for rate mitigation in any year shall be the amount necessary to mitigate rate increases during that year.

52. SCE&G requests the Commission to authorize and direct it to:

a. Record the amount of anticipated Toshiba guaranty settlement payments as a regulatory liability (the “Toshiba Guaranty Account”);

b. Apply any payments made to contractors and subcontractors to extinguish liens and other claims predating the Westinghouse bankruptcy against that regulatory liability;

c. Determine, as of the date of the 2017, Revised Rates Order and each year thereafter the amount from the Toshiba Guaranty Account (the “Toshiba Decrement Amount”) required to offset rate increases to retail electric customers during that year;

d. Flow this amount back to retail electric customers beginning with the effective date of the 2017, Revised Rates Order through a decrement rider to retail electric rates (the “BLRA Decrement Rider”);

e. Provide written notice to the Commission and South Carolina Office of Regulatory Staff of the annual amount constituting the Toshiba Decrement Amount and setting forth in detail the calculation by which it was derived;

f. Adjust the BLRA Decrement Rider each year to reflect a rate reduction equal to the Toshiba Decrement Amount for that year;

g. Amortize the balance in the Toshiba Guaranty Account to Account 407.4 – Regulatory Credits in ratable monthly increments reflecting the amount of the Toshiba Decrement Amount for that year;

- h. Cease all rate mitigation once the net amount in the Toshiba Guaranty Account up to \$700 million has been expended; and
- i. Maintain, as a regulatory liability, any balance in the Toshiba Guaranty Account for use as directed by the Commission in future proceedings.

Replacement Capacity

53. Abandonment of the Units will require SCE&G to replace the capacity that they represent with other generation assets, specifically natural gas generation facilities, or by purchasing capacity. SCE&G is currently bridging its customers' requirements with a capacity purchase in the amount of approximately 300 megawatts through 2019.

54. SCE&G requests that the Commission direct it to defer as a regulatory asset for future recovery through rates any costs associated with current and future replacement capacity. These costs include the depreciation, taxes, insurance and other operating and maintenance costs associated with generation assets necessary to replace the capacity that would otherwise be provided by the Units. These costs may also include costs associated with any purchased capacity obtained to replace the capacity that would otherwise be provided by the Units. SCE&G requests the Commission to authorize it to accrue carrying costs on the balance in this regulatory asset at its weighted average cost of long term debt.

55. SCE&G anticipates ceasing this deferral and carrying costs accrual when it seeks recovery for these amounts in future retail electric rate proceedings. In the interim, SCE&G asks that the Commission authorize and direct it to apply the amounts currently

being employed to amortize the deferred cost of capacity purchases under Order No. 2013-649 to amortize the balance in this new regulatory asset account once the regulatory assets established under that order are fully amortized. The amount currently being used to amortize capacity purchase costs under Order No. 2013-649 is approximately \$10.8 million annually.

Project Costs Incurred after September 30, 2017

56. To provide for the recovery of abandonment costs under S.C. Code Ann. § 58-33-270(E) and S.C. Code Ann. § 58-33-280(K), SCE&G asks that the Commission allow it to defer as a regulatory asset for future recovery in rates all costs incurred after September 30, 2017, that are associated with the Units or the cancellation of the Units, including without limitation costs associated with demobilization; removal; site restoration; salvage; storage, maintenance, and insuring of salvageable items; preparation of such items for sale and the costs of their inventorying, marketing, transportation and sale; payment of contractors and subcontractors; defending, compromising or satisfying contractors' and subcontractors' suits, liens and claims as well as the cost of defending or asserting other claims, suits and liens associated with the project, including in all cases reasonable attorneys' fees and other costs; sales and property taxes; permanent state and federal income tax items; the cost of maintaining, closing and cancelling permits; and other costs that would be considered costs of the plant under S.C. Code Ann. § 58-33-210 ("Future Abandonment Costs").

57. SCE&G requests that carrying costs accrue to this account at SCE&G's weighted average cost of long-term debt. SCE&G anticipates ceasing this accrual and seeking rate recovery for these Future Abandonment Costs in future proceedings under S.C. Code Ann. §§ 58-33-270(E) and 58-33-280(K) or under S.C. Code Ann. §§ 58-27-810 *et seq.*

Miscellaneous Tax Related Accounting Matters

58. The decision to abandon construction of the Units will change SCE&G's tax position in ways that will require additional accounting adjustments. SCE&G requests that the Commission:

a. Affirm that the deferral of the cost of benefits lost under Section 199 of the Internal Revenue Code, 26 U.S.C.A. § 199, as authorized in Order No. 2016-820, shall apply to benefits lost as a result of the abandonment of the Units.

b. Authorize SCE&G to defer as a regulatory asset the tax impacts of recording the deferred income tax ("ADIT") liabilities related to the equity component of the allowance for funds used during construction ("AFUDC") which will be required upon the transfer of the costs of the Units to the Capital Cost Account. SCE&G requests authorization to amortize this amount to rates over 60 years beginning with next retail electric base rate order under S.C. Code Ann. §§ 58-27-810, *et seq.*

Other Required Deferrals

59. SCE&G further requests authorization from the Commission:

a. To remove from retail electric rate base the costs associated with nuclear fuel that was acquired or was being fabricated in anticipation of the construction of the Units and directing that any gain or loss on the sale of that fuel be deferred as a regulatory liability or asset for refund or recovery in future rate proceedings with carrying costs at SCE&G weighed average cost of long-term debt.

b. To continue accruing carrying costs on ADIT assets arising from tax capitalized interest until the balance of the ADIT assets are fully offset by ADIT liabilities, as is presently permitted, or until the implementation date of the 2017, Revised Rates Order, if later.

c. To supplement and amend provisions of Order No. 2013-776 concerning the gains or losses and other costs associated with the certain interest rate swap agreements which SCE&G obtained to lock in interest rates for debt it planned to issue to finance completion of the Units. SCE&G requests authority to defer as a regulatory asset for recovery in a future rate proceeding the associated costs which are not already being amortized and for those costs to begin being amortized over 50 years beginning at the time SCE&G next issues debt, regardless of the tenor of such debt. Any gains on the termination of active swaps shall be applied as credits to fuel costs, as is currently allowed under Order No. 2013-776.

IV. LEGAL STANDARDS AND CONCLUSIONS

60. Pursuant to S.C. Code Ann. § 58-33-270(E), when a utility petitions for adjustments in the construction schedule or capital cost schedule for a plant being constructed under the BLRA, the Commission “shall grant the relief requested if, after a hearing, the commission finds: (1) as to the changes in the schedules, estimates, findings, or conditions, that the evidence of record justifies a finding that the changes are not the result of imprudence on the part of the utility”

61. Pursuant to S.C. Code Ann. § 58-33-280(K), “[w]here a plant is abandoned after a base load review order approving rate recovery has been issued, the capital costs and AFUDC related to the plant shall nonetheless be recoverable under this article provided that the utility shall bear the burden of proving by a preponderance of the evidence that the decision to abandon construction of the plant was prudent. Without limiting the effect of Section 58-33-275(A), recovery of capital costs and the utility's cost of capital associated with them may be disallowed only to the extent that the failure by the utility to anticipate or avoid the allegedly imprudent costs, or to minimize the magnitude of the costs, was imprudent considering the information available at the time that the utility could have acted to avoid or minimize the costs. The commission shall order the amortization and recovery through rates of the investment in the abandoned plant as part of an order adjusting rates under this article.”

62. SCE&G’s actions associated with the Units and the decision to abandon them have been reasonable and prudent.

V. REQUEST FOR RELIEF

WHEREFORE, South Carolina Electric & Gas Company respectfully requests that the Commission set the current matter for hearing and thereafter, pursuant to S.C. Code Ann. § 58-33-270(E) and S.C. Code Ann. § 58-33-280(K),

- A. Approve the schedule of capital costs attached as *Exhibit 1* as the operative schedules for capital cost of the Units in abandonment under S.C. Code Ann. § 58-33-275(A) and S.C. Code Ann. § 58-33-280(K).
- B. Affirming under S.C. Code Ann. § 58-33-280(K), that SCE&G's decision to abandon continued construction of the Units as of July 31, 2017, is reasonable and prudent.
- C. Authorize SCE&G to calculate a Revised Rates Charge consistent with the terms of this Petition for presentation in its 2017, Revised Rates Proceeding under S.C. Code Ann. § 58-33-280.
- D. Order and direct SCE&G to implement the accounting matters set forth in this Petition including those associated with:
 - a. Transmission Projects;
 - b. The Capital Costs of the Units;
 - c. The Revised Rates Charge;
 - d. The Toshiba Guaranty Settlement Amounts;
 - e. Future Costs of Abandonment;

- f. Swaps; and
 - g. Other accounting orders or directives as may be necessary or useful to effectuate the abandonment of the matters proposed here.
- E. Terminate the requirement that SCE&G provide the semi-annual update on construction progress as required by Order No. 2016-794.
- F. Acknowledge that with the cession of construction the filing of quarterly reports on construction progress is no longer required under S.C. Code Ann. § 58-33-277 and Order No. 2009-104(A).
- G. Grant other relief as may be appropriate.

Respectfully submitted,



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Attorneys for South Carolina Electric & Gas Company

Cayce, South Carolina

Date: August 1, 2017

Exhibit 1

RESTATED and UPDATED CONSTRUCTION EXPENDITURES

(Thousands of \$)

V.C. Summer Units 2 and 3 - Summary of SCE&G Capital Cost Components

Actual through June 2017* plus
Projected through September 30, 2017

Plant Cost Categories	Total	Actual										Projected
		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Fixed with No Adjustment	1,787,139	4,628	35,199	22,066	67,394	50,551	66,057	22,960	11,634	366,348	727,099	413,204
Firm with Fixed Adjustment A	266,750	-	-	63,250	27,500	24,200	75,075	42,900	7,700	26,125	-	-
Firm with Fixed Adjustment B	238,868	-	5,499	35,768	49,513	39,371	45,043	31,048	22,834	9,791	-	-
Firm with Indexed Adjustment	873,741	-	45,869	148,713	115,172	137,871	118,769	150,530	129,994	26,822	0	-
Actual Craft Wages	133,306	-	312	1,937	9,779	11,682	21,091	25,217	38,785	24,503	0	-
Non-Labor Costs	406,936	-	1,271	31,255	79,778	9,298	65,227	70,154	105,390	44,564	(0)	-
Time & Materials	15,786	-	1,013	155	1,004	764	1,878	2,300	4,055	2,048	2,461	109
Owners Costs	635,382	17,096	8,198	15,206	23,743	29,276	43,643	47,245	51,807	56,885	73,152	269,131
Transmission Costs	260,802	-	26	724	927	11,964	51,677	56,593	46,439	44,401	31,412	16,639
Total Base Project Costs(2007 \$)	4,618,710	21,723	97,386	319,073	374,810	314,977	488,461	448,947	418,639	601,486	834,124	699,083
Total Project Escalation	440,344	-	3,519	20,930	23,741	34,084	74,485	88,622	93,326	54,891	18,156	28,590
Total Revised Project Cash Flow	5,059,054	21,723	100,905	340,003	398,551	349,061	562,946	537,569	511,965	656,378	852,280	727,673
Cumulative Project Cash Flow(Revised)		21,723	122,629	462,632	861,183	1,210,244	1,773,190	2,310,759	2,822,724	3,479,101	4,331,382	5,059,054
AFUDC(Capitalized Interest)	198,489	645	3,497	10,564	17,150	14,218	18,941	27,722	26,131	22,202	30,817	26,603
Gross Construction	5,257,543	22,368	104,403	350,567	415,701	363,278	581,886	565,291	538,096	678,580	883,097	754,276
Construction Work in Progress		22,368	126,771	477,338	893,039	1,256,317	1,838,203	2,403,495	2,941,590	3,620,170	4,503,268	5,257,543

*Applicable index escalation rates for 2017 are estimated. Escalation is subject to restatement when actual indices for 2017 are final.

Notes:

Current Period AFUDC rate applied

6.06%

Escalation rates vary from reporting period to reporting period according to the terms of Commission Order 2009-104(A).

These projections reflect current escalation rates. Future changes in escalation rates could substantially change these projections.

The AFUDC rate applied is the current SCE&G rate. AFUDC rates can vary with changes in market interest rates, SCE&G's embedded cost of capital, capitalization ratios, construction work in process, and SCE&G's short-term debt outstanding.

BEFORE
THE PUBLIC SERVICE COMMISSION
OF
SOUTH CAROLINA
DOCKET NO. 2017-__-E

In Re: Petition of South Carolina Electric)	<u>SOUTH CAROLINA ELECTRIC &</u>
& Gas Company for Prudency)	<u>GAS COMPANY'S MOTION TO</u>
Determination Regarding Abandonment,)	<u>EXPEDITE HEARING</u>
Amendments to the Construction)	
Schedule, Capital Cost Schedule and)	
Other Terms of the BLRA Orders for)	
V.C. Summer Units 2 & 3 and Related)	
Matters)	

South Carolina Electric & Gas Company ("SCE&G" or the "Company"), through its undersigned counsel, pursuant to 10 S.C. Code Regs. 103-829, 103-836, and 103-837, hereby respectfully moves the Public Service Commission of South Carolina for an order granting an expedited hearing in the above-captioned matter for the reasons set forth below.

On August 1, 2017, SCE&G filed a Petition for a Prudency Determination Regarding Abandonment, Amendments to the Construction Schedule, Capital Cost Schedule and Other Terms of the BLRA Orders for V.C. Summer Units 2 & 3 and Related Matters (the "Petition"). As explained in the Petition, the Company has decided, as of July 31, 2017, to abandon construction of two 1,117 net megawatt nuclear units at the V.C. Summer Nuclear Station site near Jenkinsville, South Carolina.

In its Petition, SCE&G is proposing a comprehensive rate mitigation plan that is, in part, predicated on the Company receiving an income tax deduction in tax year 2017 for abandonment costs related to the New Units. This deduction is a part of the estimated \$2.0 billion in income tax savings which are a key component of the rate mitigation strategy presented in the Company's Petition. Claiming the abandonment deduction in 2017 will allow SCE&G to carry the resulting tax losses back to its 2015 tax year—a year in which SCANA paid significant income taxes. Receiving this tax refund in a timely manner is an important part of the rate mitigation plan.

The receipt of a Commission order in 2017 approving the Company's plan of abandonment as presented in the Petition will assist in SCE&G's ability to sustain the claim. Delay in receiving such an order could delay or impair SCE&G's ability to make the claim in the 2017 return, which would prevent that carryback refund from being available.

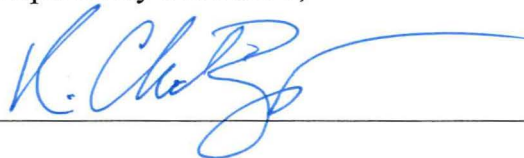
In addition, the Administration has announced a plan to reduce the Federal income tax rate on corporations to 20%. If such a tax rate reduction is adopted effective for tax year 2018, the lower tax rate could reduce the value of the abandonment deduction. This would further limit the effectiveness of the rate mitigation plan.

Therefore, to safeguard the rate mitigation plan, the Company is requesting that an order approving SCE&G's decision to abandon the plant be issued before the end of 2017. Doing so will necessitate an expedited hearing in this matter.

EXPEDITED RELIEF REQUESTED

Wherefore, SCE&G respectfully requests that the Commission expedite the hearing in the above-captioned matter. A proposed schedule for the filing is attached as Exhibit A.

Respectfully submitted,



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Attorneys for South Carolina Electric & Gas Company

Cayce, South Carolina

Date: Aug. 1, 2017

DOCKET NO. 2017- -E

EXHIBIT A: PROPOSED SCHEDULE
FOR FILING

1. The **Applicant** must prefile with the Commission 1 copy of the direct testimony and exhibits of the witnesses it intends to present and serve the testimony and exhibits of the witnesses on all Parties of Record on or before **August 31, 2017** (must be post-marked on or before this date).
2. **All Other Parties of Record and the Office of Regulatory Staff (ORS)** must prefile with the Commission 1 copy of direct testimony and exhibits of the witnesses they intend to present and serve the testimony and exhibits of the witnesses on all Parties of Record on or before **October 3, 2017** (must be post-marked on or before this date).
3. The **Applicant** filing **Rebuttal Testimony** must prefile with the Commission 1 copy of the testimony and exhibits of the witnesses it intends to present and serve the testimony and exhibits of the witnesses on all Parties of Record on or before **October 23, 2017** (Rebuttal testimony and exhibits must be in the offices of the Commission and in the hands of the parties on this date).
4. **All Other Parties of Record and the ORS** filing **Surrebuttal Testimony** must prefile with the Commission 1 copy of the testimony and exhibits of the witnesses they intend to present and serve the testimony and exhibits of the witnesses on all Parties of Record on or before **October 30, 2017** (Surrebuttal testimony and exhibits must be in the offices of the Commission and in the hands of the parties on this date).

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

CLERK'S OFFICE

PROPOSED NOTICE OF FILING AND HEARING AND PREFILE TESTIMONY DEADLINES

DOCKET NO. 2017-__-E

PETITION OF SOUTH CAROLINA ELECTRIC & GAS COMPANY FOR A PRUDENCY DETERMINATION REGARDING ABANDONMENT, AMENDMENTS TO THE CONSTRUCTION SCHEDULE, CAPITAL COST SCHEDULE AND OTHER TERMS OF THE BLRA ORDERS AND RELATED MATTERS FOR THE VC SUMMER NUCLEAR UNITS 2 & 3 AT JENKINSVILLE, SOUTH CAROLINA

On August 1, 2017, South Carolina Electric & Gas Company ("SCE&G" or the "Company") filed a Petition with the Public Service Commission of South Carolina (the "Commission"), pursuant to S.C. Code Ann. §§ 58-33-270(E) and 58-33-280(K) (2015), to cease construction and enter a plan of abandonment for the two nuclear units (the "Units") at the V.C. Summer Nuclear Station near Jenkinsville, South Carolina. The Company's Petition requests a prudency determination from the Commission regarding the decision to abandon the Units, and an order establishing the amount of the abandonment costs through September 30, 2017, associated with the Units, and for other matters related to rate mitigation and other accounting and tax items.

On March 29, 2017, the Company's General Contractor for the Units, Westinghouse Electric Company, LLC, filed for bankruptcy and notified the Company that Westinghouse would not finish construction of the Units under the fixed price provisions contained in the Engineering, Procurement and Construction Agreement ("EPC Contract") with SCE&G and its co-owner the South Carolina Public Service Authority ("Santee Cooper"). As detailed further in the Petition, the Company undertook an evaluation of the options regarding the future construction of the Units, including completing both Units, canceling both Units, and completing one Unit and delaying or canceling the other. SCE&G determined that the cost to complete the Units would be approximately \$8.8 billion, which is \$2.2 billion higher than the prior costs reviewed and approved by the Commission. The Company and Santee Cooper also negotiated a payment agreement by Westinghouse's parent company, Toshiba, for \$2.2 billion in damages for Westinghouse's breach of the EPC Contract. SCE&G's share of this amount after payment of certain liens against the project is estimated to be \$1.1 billion. Even after deducting this amount from the cost of the Units, that cost has increased by over \$1.1 billion compared to amounts previously reviewed and approved by the Commission.

After a careful review and assessment by an evaluation team that included third party expert consultants, and considering the decision by Santee Cooper to suspend work on the project, SCE&G came to decision that for the best interest of its customers and utility system both Units should be abandoned as of July 31, 2017. Accordingly, the Company seeks an order from the Commission that SCE&G's decision to abandon the project effective July 31, 2017, is reasonable and prudent under S.C. Code Ann. § 58-33-280(K).

Exhibit 1 of the Petition provides a schedule of the capital costs associated with the Units incurred as of July 31, 2017, or anticipated to be incurred as of September 30, 2017. As shown on *Exhibit 1*, the Capital Costs are approximately \$5.3 billion including transmission costs, and approximately \$4.9 billion excluding transmission costs. The Capital Costs SCE&G expects to spend between July 31, 2017, and September 30, 2017, to demobilize the construction team and begin to restore the site to a stable condition, net of the transmission lines and asset costs, are approximately \$220 million of this amount.

The transmission lines and other transmission assets built as part of the construction plan ("Transition Projects") are a valuable asset and necessary to SCE&G's existing and future transmission system. In the Petition SCE&G states that they will not be abandoned. The Petition describes requested Commission authorizations for appropriate accounting and ratemaking treatment for costs associated with the Transmission Projects including accrual of depreciation and operating costs, with carrying costs, for future recovery.

Additionally, as authorized by the Base Load Review Act, the Petition seeks to recover abandoned plant capital costs through September 30, 2017, that are not yet included in revised rates. The Petition further requests a return of the currently projected \$4.9 billion in abandoned investment over a 60 year amortization. These requests would be implemented through a subsequent revised rates filing.

As detailed in the Petition, the Company intends to reduce the impact to customers by various tax and accounting measures, and will use money damages from the Toshiba parental guaranty for this purpose. The amount is estimated to be \$700 million net of contractors' claims and after deduction of state and federal taxes at the statutory rate. Due to the abandonment of the Units, SCE&G will need to replace the energy and capacity from the Units with other generation assets and requests an accounting order from the Commission to allow it to accrue to a regulatory asset with carrying costs the capital and operating and maintenance costs, depreciation, and other costs associated with the replacement capacity. Likewise, SCE&G requests the Commission to remove from retail electric rates the costs associated the nuclear fuel that was acquired or was being fabricated in anticipation of the construction of the Units and defer that gain or loss with carrying cost as a regulatory asset for future recovery in rates. Additionally, SCE&G requests relief from the Commission to address additional accounting requirements due to the abandonment as further described in the Petition.

S.C. Code Ann. §§ 58-33-270(E) and 58-33-280(K) authorize SCE&G to petition the Commission for modification of any of the schedules related to the construction of a base load generation facility, and for recovery of capital costs and carrying costs where a plant is abandoned. This statute provides that such requests shall be granted if, after a hearing, the Commission finds that the changes to the schedules and decision to abandon the plant are not the result of imprudence on the part of SCE&G based on the information available to the Company. Further, the statute allows the Commission to order amortization and recovery through rate regulation. In the Petition, the Company states "SCE&G's actions associated with the Units and the decision to abandon them have been reasonable and prudent."

A copy of the Company's Petition can be found on the Commission's website at www.psc.sc.gov under Docket No. 2017-__-E. Additionally, a copy of the Petition is available from the office of South Carolina Electric & Gas Company at 220 Operation Way, Mail Code C222, Cayce, South Carolina 29033.

PLEASE TAKE NOTICE that a hearing, pursuant to 10 S.C. Code Ann. Regs. 103-817 and S.C. Code Ann. §58-33-270 on the above matter has been scheduled to begin on **Tuesday, November 7, 2017, at 10:30 a.m., and continuing to November 8 and November 9, and further continued after these dates, if necessary**, before the Commission in the Commission's Hearing Room at 101 Executive Center Drive, Saluda Building, Columbia, South Carolina 29210 for the purpose of receiving testimony and evidence from all interested parties.

Any person who wishes to participate in this matter as a party of record should file a Petition to Intervene in accordance with the Commission's Rules of Practice and Procedure on or before **September 15, 2017**. For the receipt of future Commission correspondence, please include an email address in the Petition to Intervene. ***Please refer to Docket No. 2017-__-E and mail a copy to all other parties in this docket.*** Any person who wishes to testify and present evidence at the hearing should notify, in writing, the Commission; the Office of Regulatory Staff at 1401 Main Street, Suite 900, Columbia, South Carolina 29201; K. Chad Burgess, Director and Deputy General Counsel, SCANA Corporation, 220 Operation Way, Mail Code C222, Cayce, South Carolina 29033, on or before **October 16, 2017**. ***Please refer to Docket No. 2017-__-E.***

INSTRUCTIONS TO ALL PARTIES OF RECORD (Applicant, Petitioners, and Intervenors only):

All Parties of Record must prefile testimony with the Commission and with all parties of record. Prefiled Testimony Deadlines: Applicant's **Direct Testimony** Due: **8/31/2017**; Other Parties of Record **Direct Testimony** Due: **10/3/2017**; Applicant's **Rebuttal Testimony** Due: **10/23/2017**; and Other Parties of Record **Surrebuttal Testimony** Due: **10/30/2017**. All Prefiled Testimony Deadlines are subject to the information as posted on www.psc.sc.gov under ***Docket No. 2017-__-E.***

For the most recent information regarding this docket, including changes in scheduled dates included in this Notice, please refer to www.psc.sc.gov and ***Docket No. 2017-__-E.***

PLEASE TAKE NOTICE that any person who wishes to have his or her comments considered as part of the official record of this proceeding **MUST** present such comments in person to the Commission during the hearing.

Persons seeking information about the Commission's procedures should contact the Commission at (803) 896-5100 or visit its website at www.psc.sc.gov.

8/1/17

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2017-____-E

IN RE:

Petition of South Carolina Electric & Gas Company)
For Prudency Determination Regarding)
Abandonment, Amendments to the Construction)
Schedule, Capital Cost Schedule and Other Terms)
of the BLRA Orders for V.C. Summer Units 2 & 3)
and Related Matters)
_____)

**CERTIFICATE OF
SERVICE**

This is to certify that I have caused to be served this day one (1) copy of South Carolina Electric & Gas Company's **Petition for Prudency Determination Regarding Abandonment, Amendments to the Construction Schedule, Capital Cost Schedule and Other Terms of the BLRA Orders for V.C. Summer Units 2 & 3 and Related Matters, Motion to Expedite Hearing and Proposed Notice of Filing and Hearing and Prefile Testimony Deadlines** via electronic mail and U.S. First Class Mail to the persons named below at the addresses set forth:

Shannon Bowyer Hudson, Esquire
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1401 Main Street, Suite 900
Columbia, SC 29201
shudson@regstaff.sc.gov

Jeffrey M. Nelson, Esquire
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jnelson@regstaff.sc.gov



Karen M. Scruggs

Cayce, South Carolina

This 2nd day of August 2017